

Message Text

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E.O. 11652: GDS

TAGS: EFIN, PE, IMF

SUBJECT: GOP AND THE IMF

REF: STATE 165920

1. TOWARD THE END OF A RATHER LENGTHY COCKTAIL PARTY ON THE OCCASION OF PERU'S AIR FORCE DAY JULY 23, I HAD A BRIEF CONVERSATION WITH PRESIDENT MORALES BERMUDEZ. AFTER AN EXCHANGE OF PLEASANTRIES HE LAUNCHED WITHOUT WARNING INTO WHAT BECAME AN EMOTIONAL DISCOURSE ON HIS PROBLEMS WITH THE IMF. AS HE WENT ALONG WE WERE JOINED BY A SMALL NUMBER OF OTHER AMBASSADORS AND PERUVIAN GENERAL OFFICERS.

2. THE THRUST OF THE PRESIDENT'S EXPOSITION WAS THAT ACCEDING TO THE IMF "DEMANDS" WOULD PRODUCE A "SOCIAL EXPLOSION" IN PERU. THAT HE WOULD NOT ACCEPT. HE ASSERTED THE GOVERNMENT'S SERIOUS PROPOSAL IN RESTRICTING EXPENDITURES, NOTING THE "HUMILIATING" NECESSITY TO CANCEL THE DAY'S CUSTOMARY FLY-BY AND THE JULY 28 MILITARY PARADE. (COMMENT: IN FACT THERE WAS AT LEAST ONE FLY-BY LAST SATURDAY -- MIG'S AT THE CHICLAYO BASE. OTHER OFFICERS TOLE ME THE WEATHER WAS TOO BAD TO STAGE THE EVENT IN LIMA. MY OWN GUESS IS THAT THE GOP, AS IN THE CASE OF THURSDAY'S ABORTED PARADE, HAS DECIDED TO AVOID DISPLAYS
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OF CONSPICUOUS MILITARY CONSUMPTION IN THE CAPITAL.)

3. I TOLD THE PRESIDENT THAT DEALING WITH THE IMF IS A PROCESS OF NEGOTIATION; THAT BREAKING-OFF SHOULD BE AVOIDED AND A DIALOGUE CONTINUED. I REFERRED TO THE RECENT JAMAICAN AGREEMENT AS AN INSTANCE IN WHICH A COUNTRY HAD EVENTUALLY RESOLVED SERIOUS DIFFERENCES WITH

THE FUND, OBTAINING IMPORTANT CONCESSIONS IN THE OUTCOME. (THE NEED TO MAINTAIN CONTACT AND KEEP NEGOTIATING IS A POINT I HAVE MADE TO EVERY PERUVIAN WILLING TO LISTE, INCLUDING EVEN TO THE CARDINAL.) I ALSO HAD THE OPPORTUNITY TO SECOND MY BRITISH COLLEAGUE'S OBSERVATION TO THE PRESIDENT THAT FUND RECOMMENDATIONS IN THESE MATTERS ARE NOT SUBJECT TO THE INFLUENCE OF OTHER GOVERNMENTS, INCLUDING THAT OF THE USG OR HMG. MORALES BERMUDEZ ONLY EMPHASIZED IN REPLY THAT IF THE FUND PERSISTED IN ITS UNACCEPTABLE CONDITIONS, PERU WOULD HAVE TO GO IT ALONE. AT THIS POINT HE WAS DISTRACTED BY THE EAGER YOUNG POLISH AMBASSADOR WHO PULLED HIM ASIDE TO TELL HIM WHAT HE WANTED TO HEAR: I.E., THAT "SOCIAL" CONSIDERATIONS MUST COME FIRST.

4. COMMENT: THE PRESIDENT WAS OBVIOUSLY -- AND MOST UNDERSTANDABLY -- UNDER CONSIDERABLE STRAIN. HIS SITUATION IS A TOUGH ONE INDEED. THE CARDINAL AND HAYA DE LA TORRE HAVE INDEPENDENTLY VOLUNTEERED TO ME THE OPINION THAT THIS IS PERU'S WORST CRISIS SINCE THE WAR. PERHAPS IT IS IN THE SENSE THAT THE AVAILABLE POLICY CHOICES ALL HAVE SUCH DISMAL IMPLICATIONS.

5. ACCORDING TO THE CARDINAL, BELT-TIGHTENING HAS ALREADY BROUGHT REAL HUNGER TO THE POOREST PERUVIANS. AND, AS HAYA POINTS OUT, THE ROSY RHETORIC OF THE SO-

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CALLED "FIRST PHASE" OF THE REVOLUTION RAISED EXPECTATIONS AMONG THE DISADVANTAGED HERE TO A HIGH PITCH INDEED. THUS, THE PRESIDENT, WHATEVER HIS WEAKNESSES, HAS SOME CAUSE FOR ALARM WHEN HE TALKS ABOUT THE POSSIBILITY OF A "SOCIAL EXPLOSION". I HAVE SOME DOUBT IN THE CIRCUMSTANCES THAT HE HAS SUFFICIENT POLITICAL OR PERSONAL STRENGTH TO IMPOSE ANYTHING AT THIS POINT APPROACHING THE IMF'S RECOMMENDATIONS.

6. AS THE REFTTEL STATES, THE ALTERNATIVES TO AN IMF AGREEMENT APPEAR TO BE EVEN MORE DRASTIC AUSTERITY LATER ON OR SOME KIND OF MORATORIUM ON DEBT SERVICE. IT IS PRECISELY THE LATTER COURSE THAT THE COMMUNISTS AND FIRST-PHASERS HERE ARE ADVOCATING. THE PRESIDENT MAY WELL REALIZE THE SERIOUS CONSEQUENCES OF SUCH A COURSE, BUT TO GENERAL IBANEZ, AND HIS CAMP, A CRY FOR DEBT RELIEF MIGHT PROVE MORE POLITICALLY ATTRACTIVE (INCLUDING THE THIRD-WORLD ASPECT) AFTER THOSE CLOUDS OF ARAB MONEY THEY SEE ON THE HORIZON DISSIPATE. IN SHORT, I FIND IT DIFFICULT TO BE VERY OPTIMISTIC ABOUT THE PROSPECTS FOR IMPLEMENTATION ANY TIME SOON OF WHAT THE FUND WOULD REGARD AS SENSIBLE POLICIES IN THIS

SITUATION.

7. THE SUGGESTION IN THE REFTTEL THAT THE GOP MAY OVER-ESTIMATE USG INFLUENCE WITH THE IMF IS UNDOUBTEDLY ON THE MARK. WE HAVE BEEN IDENTIFIED FOR A GOOD MANY YEARS IN THESE COUNTRIES WITH THE IMF BECAUSE THE TWO OF US ARE GENERALLY ADVOCATING THE SAME POLICIES AT THE SAME TIME, AND BECAUSE THE LEFT HAS INVARIABLY SOUGHT TO TARGET "IMPERIALISM" AS THE REALY AUTHOR OF THE FUND'S DISAGREEABLE PRESCRIPTIONS. I HAVE TRIED TO SCOTCH THIS IDEA, BUT PROBABLY WITHOUT MUCH SUCCESS. IN ANY CASE, THE QUESTION IS MOOT AT THE MOMENT INASMUCH AS THE GOP HAS YET TO GO BACK TO THE IMF WITH A COUNTER-PROPOSAL. OUR BEST TACK FOR THE TIME BEING SEEMS TO ME TO BE A
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CONTINUED EMPHASIS ON THE DESIRABILITY OF PATIENT NEGOTIATIONS WITH THE IMF. I ALSO THINK THAT WE SHOULD BE CAREFUL HERE AND IN WASHINGTON NOT TO OFFER THE GOP JUDGMENTS ON WHAT POLICIES WOULD OR WOULD NOT GO DOWN POLITICALLY. IN THE FIRST PLACE, AS THE DEPARTMENT NOTES, THE GOP MUST BE THE ULTIMATE JUDGE ON THAT POINT. IN THE SECOND, WE COULD ALL TOO EASILY TURN OUT TO BE WRONG. SHLAUDEMAM

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